



GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

## Fiscal Note 2017 Biennium

<b>Bill #</b>	SB0264	<b>Title:</b>	Revise distribution of sales and use tax
---------------	--------	---------------	--

<b>Primary Sponsor:</b>	Keenan, Bob	<b>Status:</b>	As Introduced
-------------------------	-------------	----------------	---------------

- |   |  |   |
|---|--|---|
| <input type="checkbox"/> Significant Local Gov Impact     | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns              |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts           | <input checked="" type="checkbox"/> Dedicated Revenue Form Attached |

### FISCAL SUMMARY

	<u>FY 2016 Difference</u>	<u>FY 2017 Difference</u>	<u>FY 2018 Difference</u>	<u>FY 2019 Difference</u>
<b>Expenditures:</b>				
General Fund	\$0	\$0	\$0	\$0
State Special Revenue	\$14,406,000	\$15,232,200	\$16,455,000	\$17,703,600
<b>Revenue:</b>				
General Fund	(\$14,406,000)	(\$15,232,200)	(\$16,455,000)	(\$17,703,600)
State Special Revenue	\$14,406,000	\$15,232,200	\$16,455,000	\$17,703,600
<b>Net Impact-General Fund Balance:</b>	<u>(\$14,406,000)</u>	<u>(\$15,232,200)</u>	<u>(\$16,455,000)</u>	<u>(\$17,703,600)</u>

**Description of fiscal impact:** SB 264 revises the distribution of the accommodations and campgrounds sales tax and rental vehicle sales tax revenue. Under the proposed law, 60% of the revenue generated by the two sales taxes would be distributed to seven state special revenue funds. The remaining 40% of the revenue would remain in the state general fund. The proposed changes will reduce general fund revenue and increase state special revenue funds by \$29.6 million in the 2017 biennium and \$34.2 million in the 2019 biennium.

### FISCAL ANALYSIS

#### Assumptions:

#### **Department of Revenue (DOR)**

- Under current law, Montana places a 3% sales tax on accommodations and campgrounds (15-68-102, MCA). The State of Montana also places a 4% sales tax on the base rental charge for rental vehicles (15-68-102, MCA). One hundred percent of the revenue for both taxes is currently deposited into the state general fund.

2. In FY 2014, the accommodations and campgrounds sales tax generated \$17,725,159 in revenue, which is an increase of more than \$1.0 million compared to the revenue generated in FY 2013. During the same fiscal year, the rental vehicle sales tax generated \$3,521,324 in revenue, which is a slight decrease from the previous fiscal year. When combined, the two sales taxes generated \$21,246,483 in revenue for FY 2014.
3. HJ 2 projects that the accommodations and campground sales tax revenue will increase to \$19.169 million in FY 2015, \$20.114 million in FY 2016, and \$21.316 million in FY 2017. Based on HJ 2, OBPP projects the accommodations and campground sales tax revenue will increase to \$23.151 million in FY 2018 and \$25.018 million in FY 2019.
4. HJ 2 projects that the rental vehicle sales tax revenue will increase to \$3.749 million in FY 2015, \$3.896 million in FY 2016, and \$4.071 million in FY 2017. Based on HJ 2, OBPP projects that the rental vehicle sales tax revenue will increase to \$4.274 million in FY 2018 and \$4.488 million in FY 2019.
5. Under current law, HJ 2 projects that the two sales and use taxes will generate \$24.010 million in revenue for the general fund in FY 2016 and \$25.387 million in FY 2017. OBPP projects that the two taxes will generate \$27.426 million in revenue for the state general fund in FY 2018 and \$29.506 million in FY 2019.
6. SB 264 changes the revenue distribution of the two sales taxes. Under current law, 100% of the revenue is deposited into the state general fund. Under SB 264, 22.5% is deposited into a Department of Commerce state special revenue fund to fund tourism promotion, 9.72% is deposited into a Department of Fish, Wildlife, and Parks state special revenue fund for the enhancement of state parks, 7.5% is deposited into a Department of Commerce state special revenue fund for regional nonprofit tourism corporations, 7.2% is deposited into a Montana Historical Society state special revenue fund for historical preservation, 7.08% is deposited into a state special revenue fund for the Montana Arts Council, 3.48% is deposited into a Montana Heritage Preservation and Development Commission state special revenue fund, and 2.52% is deposited into a Department of Fish, Wildlife, and Parks state special revenue fund for heritage properties grants. When combined, the seven special revenue fund deposits account for 60% of the revenue generated by the two sales and use taxes. The remaining 40% is deposited into the state general fund.
7. The projected distribution of the revenue generated by the two sales taxes into the seven state special revenue funds and the general fund under SB 264 are presented in the table below.

		FY 2016	FY 2017	FY 2018	FY 2019
Commerce-Montana Promotion					
Division-MPD (tourism promotion)	22.50%	\$5,402,250	\$5,712,075	\$6,170,625	\$6,638,850
FWP (enhance state parks)	9.72%	\$2,333,772	\$2,467,616	\$2,665,710	\$2,867,983
Commerce-Convention and Visitors Bureaus -CVB (regional nonprofit tourism corps)	7.50%	\$1,800,750	\$1,904,025	\$2,056,875	\$2,212,950
Historical Society (historical preservation)	7.20%	\$1,728,720	\$1,827,864	\$1,974,600	\$2,124,432
Arts Council	7.08%	\$1,699,908	\$1,797,400	\$1,941,690	\$2,089,025
Heritage Preservation-Heritage Commission	3.48%	\$835,548	\$883,468	\$954,390	\$1,026,809
FWP (heritage properties grants)	2.52%	\$605,052	\$639,752	\$691,110	\$743,551
General Fund	40.00%	\$9,604,000	\$10,154,800	\$10,970,000	\$11,802,400
<b>TOTAL</b>		<b>\$24,010,000</b>	<b>\$25,387,000</b>	<b>\$27,425,000</b>	<b>\$29,506,000</b>

8. DOR does not expect to incur any additional costs as a result of SB 264.

**Department of Commerce (DOC)**

9. The Montana Promotion Division (MPD) of the Department of Commerce (DOC) would receive 22.5% of the revenue generated by the 3% lodging facility sales tax and 4% car rental sales tax equivalent to approximately \$11.1 million in the 2017 biennium.
10. MPD would add the additional funding into its overall budget in its mission to promote tourism and promotion of the state as a location for the production of motion pictures and television commercials. The manner in which these funds would be expended is dependent upon division priorities and the ever changing marketing methods based upon past results garnered and current trends and the budgeting process.
11. The DOC tourism regions and convention and visitors bureaus (CVBs) would receive 7.5% of the revenue generated by the sales taxes, if they submit and gain approval of a marketing plan from the Tourism Advisory Council (TAC) as referenced in 2-15-1816(4)(a), MCA. This would be distributed among the six tourism regions and fifteen CVBs in proportion to the amount of each region's collections.
12. For the purposes of this fiscal note, the tourism regions and CVBs will add the additional funding into their overall budgets.

**Montana Heritage Commission:**

13. The Montana Heritage Commission (MHC) would receive 3.48% of the revenue generated by the 3% lodging facility sales tax and 4% vehicle rental sales tax. This would generate approximately \$1.7 million in the 2017 biennium.
14. MHC would add the additional funding into its overall budget for the preservation, protection, and enhancement of heritage commission properties and the artifacts it manages. The Montana Heritage Commission manages 273 historical registered buildings and 1,234,714 registered Americana artifacts. Virginia City, Nevada City, and Reeder's Alley are some of the largest historic sites in the United States.

**Fish, Wildlife and Parks (FWP)**

15. SB 264 allocates 9.72% of both sales taxes to FWP for the renovation, replacement, and enhancement of state parks. These revenues (\$4.8 million in the 2017 biennium) would be deposited in an existing fund and appropriated in HB 5.
16. SB 264 allocates 2.52%, \$1.2 million for the 2017 biennium, of both taxes to FWP for Heritage Preservation grants program. These funds would be deposited in a new Heritage Preservation Grants fund and appropriated in HB 2. It is anticipated \$85,000 would be used for operating expenses to manage the grants program and the balance would be for grants.

**Historical Society (historic preservation)**

17. The allocation of 7.2% of the lodging and vehicle sales taxes to the Historical Society for the historic preservation would generate approximately \$2.5 million in the 2017 biennium. The funding would be used for conservation of collections; archival storage for museum artifacts; digitizing collections; electronic records preservation; and interactive technology for exhibits.

**Montana Arts Council**

18. The Montana Arts Council is allocated 7.08% of the lodging and vehicle sales taxes in SB 264 for a total of approximately \$1.7 million in each year of the 2017 biennium. These funds would support growth in arts marketing, services and experiences that leverage increased visitor spending and length of stay. It would allow the arts council, for the first time, to make strategic targeted investments in Montana's arts industry that boost local economies, create jobs, and revitalize communities. This would spur increased interest in the arts and lead to greater appreciation of authentic Montana products and experiences, and ultimately greater spending of tourists' dollars.

<b><u>Fiscal Impact:</u></b>	<b><u>FY 2016 Difference</u></b>	<b><u>FY 2017 Difference</u></b>	<b><u>FY 2018 Difference</u></b>	<b><u>FY 2019 Difference</u></b>
<b><u>Expenditures:</u></b>				
Operating Expenses				
Commerce (tourism promotion)	\$5,402,250	\$5,712,075	\$6,170,625	\$6,638,850
FWP (enhance state parks)	\$2,333,772	\$2,467,616	\$2,665,710	\$2,867,983
Commerce (regional nonprofit tourism corps)	\$1,800,750	\$1,904,025	\$2,056,875	\$2,212,950
Historical Society (historical preservation)	\$1,728,720	\$1,827,864	\$1,974,600	\$2,124,432
Arts Council	\$1,699,908	\$1,797,400	\$1,941,690	\$2,089,025
Heritage Preservation	\$835,548	\$883,468	\$954,390	\$1,026,809
FWP (heritage properties grants admin)	\$85,000	\$85,000	\$86,275	\$87,569
Grants FWP (heritage properties grants)	\$520,052	\$554,752	\$604,835	\$655,982
<b>TOTAL Expenditures</b>	<b>\$14,406,000</b>	<b>\$15,232,200</b>	<b>\$16,455,000</b>	<b>\$17,703,600</b>

**Funding of Expenditures:**

General Fund (01)	\$0	\$0	\$0	\$0
State Special Revenue (02)				
Commerce (tourism promotion)	\$5,402,250	\$5,712,075	\$6,170,625	\$6,638,850
FWP (enhance state parks)	\$2,333,772	\$2,467,616	\$2,665,710	\$2,867,983
Commerce (regional nonprofit tourism corps)	\$1,800,750	\$1,904,025	\$2,056,875	\$2,212,950
Historical Society (historical preservation)	\$1,728,720	\$1,827,864	\$1,974,600	\$2,124,432
Arts Council	\$1,699,908	\$1,797,400	\$1,941,690	\$2,089,025
Heritage Preservation	\$835,548	\$883,468	\$954,390	\$1,026,809
FWP (heritage properties grants)	\$605,052	\$639,752	\$691,110	\$743,551
<b>TOTAL Funding of Exp.</b>	<b>\$14,406,000</b>	<b>\$15,232,200</b>	<b>\$16,455,000</b>	<b>\$17,703,600</b>

**Revenues:**

General Fund (01)	(\$14,406,000)	(\$15,232,200)	(\$16,455,000)	(\$17,703,600)
State Special Revenue (02)				
Commerce (tourism promotion)	\$5,402,250	\$5,712,075	\$6,170,625	\$6,638,850
FWP (enhance state parks)	\$2,333,772	\$2,467,616	\$2,665,710	\$2,867,983
Commerce (regional nonprofit tourism corps)	\$1,800,750	\$1,904,025	\$2,056,875	\$2,212,950
Historical Society (historical preservation)	\$1,728,720	\$1,827,864	\$1,974,600	\$2,124,432
Arts Council	\$1,699,908	\$1,797,400	\$1,941,690	\$2,089,025
Heritage Preservation	\$835,548	\$883,468	\$954,390	\$1,026,809
FWP (heritage properties grants)	\$605,052	\$639,752	\$691,110	\$743,551
<b>TOTAL Revenues</b>	<b>(\$14,406,000)</b>	<b>(\$15,232,200)</b>	<b>(\$16,455,000)</b>	<b>(\$17,703,600)</b>

**Net Impact to Fund Balance (Revenue minus Funding of Expenditures):**

General Fund (01)	(\$14,406,000)	(\$15,232,200)	(\$16,455,000)	(\$17,703,600)
State Special Revenue (02)	\$0	\$0	\$0	(\$0)

**Technical Notes:**

1. Line 23 on page 1 refers to subsection (2)(c)(ii), which does not exist. The correct subsection is (1)(c)(ii).
2. Line 28 on page 1 refers to subsection (2)(c)(i), which does not exist. The correct subsection is (1)(c)(i).

\_\_\_\_\_  
*Sponsor's Initials*\_\_\_\_\_  
*Date*\_\_\_\_\_  
*Budget Director's Initials*\_\_\_\_\_  
*Date*



## Dedication of Revenue 2017 Biennium

GOVERNOR'S OFFICE OF  
BUDGET AND PROGRAM PLANNING

17-1-507-509, MCA.

### Fish, Wildlife, and Parks (FWP)

- a) **Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**

Beneficiaries of the Heritage Preservation grants program will gain from the fees paid by those assessed the lodging tax and the rental vehicle tax.

- b) **What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**

The funds must be deposited in a state special revenue account. Establishing a new fund ensures FWP complies with the law.

- c) **Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**

The revenue generated will determine the level of funding for work related to the Heritage Preservation grants program

- d) **Does the need for this state special revenue provision still exist? \_\_\_Yes \_\_\_No (Explain)**

In order to provide appropriate accountability, a separate state special revenue funds is needed.

- e) **Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**

No. These funds will still require legislative appropriations.

- f) **Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**

If SB264 passes, the legislature has recognized a need for a state special revenue fund. This fund allows FWP to appropriately account for the funds.

- g) **How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**

The dedicated revenue provision ensures FWP utilizes the dedicated revenue as the legislature intended with the passage of the bill.



## Dedication of Revenue 2017 Biennium

**17-1-507-509, MCA.**

### **Montana Arts Council**

- a) Are there persons or entities that benefit from this dedicated revenue that do not pay? (please explain)**

The revenue comes from the sales taxes on accommodations and rental cars. All persons who stay in motels/hotels/etc. and who rent cars pay this tax. There is no way of knowing which persons or entities in the cultural organizations pay this tax.

- b) What special information or other advantages exist as a result of using a state special revenue fund that could not be obtained if the revenue were allocated to the general fund?**

The funds are distributed to the programs/grants that benefit cultural tourism.

- c) Is the source of revenue relevant to current use of the funds and adequate to fund the program activity that is intended? Yes / No (if no, explain)**

Yes

- d) Does the need for this state special revenue provision still exist? XX Yes \_\_\_No (Explain)**

- e) Does the dedicated revenue affect the legislature's ability to scrutinize budgets, control expenditures, or establish priorities for state spending? (Please Explain)**

No, the funds will be carefully utilized and monitored by the council. The funds will be audited by the Legislative Auditor, and reported the public, the tourism industry and the legislature.

- f) Does the dedicated revenue fulfill a continuing, legislatively recognized need? (Please Explain)**

Yes, promotion of the arts has been funded by the state, since 1967.

- g) How does the dedicated revenue provision result in accounting/auditing efficiencies or inefficiencies in your agency? (Please Explain. Also, if the program/activity were general funded, could you adequately account for the program/activity?)**

No inefficiencies known.